

STATE CENTER COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 1999, through June 30, 2002



STEVE WESTLY
California State Controller

September 2004



STEVE WESTLY
California State Controller

September 17, 2004

Thomas A. Crow, Ph.D., Chancellor
State Center Community College District
1525 East Weldon Avenue
Fresno, CA 93704

Dear Dr. Crow:

The State Controller's Office audited the claims filed by State Center Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,643,055 for the mandated program. Our audit disclosed that \$755,390 is allowable and \$887,665 is unallowable. The unallowable costs occurred primarily because the district overstated its indirect cost rates and understated authorized health service fees. The State paid the district \$819,237. The district should return \$63,847 to the State.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: (See page 2)

cc: Edwin Eng
 Director of Finance
 State Center Community College District
Lorrie Hopper
 Accounting Manager
 State Center Community College District
Ron Walls
 Accountant-Auditor
 State Center Community College District
Ed Monroe, Program Assistant
 Fiscal Accountability Section
 Chancellor's Office
 California Community Colleges
Jeannie Oropeza, Program Budget Manager
 Education Systems Unit
 Department of Finance
Charles Pillsbury, School Apportionment Specialist
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	6
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by State Center Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session [E.S.], and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was June 17, 2004.

The district claimed \$1,643,055 for the mandated program. The audit disclosed that \$755,390 is allowable and \$887,665 is unallowable. The unallowable costs occurred primarily because the district overstated its indirect cost rates and understated authorized health service fees. The district was paid \$819,237. The amount paid in excess of allowable costs claimed totals \$63,847.

Background

Chapter 1, Statutes of 1984, 2nd E.S., repealed *Education Code* Section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating community colleges districts' authority to charge a health fee as specified. Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 to require any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health service fee in FY 1983-84, regardless of the extent to which the health service fees collected offset the actual costs of providing health services at the FY 1983-84 level. On April 27, 1989, the COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87 and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines, adopted by COSM on August 27, 1987 (and amended on May 25, 1989), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the Health Fee Elimination Program for the period of July 1, 1999, through June 30, 2002.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

The SCO requested the district to submit a written representation letter regarding its accounting procedures, financial records, and mandated cost claiming procedures, as recommended by *Government Auditing Standards*. However, the district declined the SCO's request.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the State Center Community College District claimed \$1,643,055 for costs of the Health Fee Elimination Program. The audit disclosed that \$755,390 is allowable and \$887,665 is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$521,769 by the State. The audit disclosed that \$253,657 is allowable. The amount paid in excess of allowable costs claimed, totaling \$268,112, should be returned to the State.

For FY 2000-01, the district was paid \$165,514 by the State. The audit disclosed that \$187,818 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$22,304, will be paid by the State based on available appropriations.

For FY 2001-02, the district was paid \$131,954 by the State. The audit disclosed that \$313,915 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$181,961, will be paid by the State based on available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on July 26, 2004. Thomas A. Crow, Ph.D., Chancellor, responded by letter dated August 10, 2004, disagreeing with the audit results. The final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the State Center Community College District, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 421,993	\$ 420,647	\$ (1,346)	Finding 1
Benefits	73,424	73,424	—	
Services and supplies	<u>89,380</u>	<u>72,007</u>	<u>(17,373)</u>	Finding 2
Subtotals	584,797	566,078	(18,719)	
Indirect costs	<u>226,550</u>	<u>79,648</u>	<u>(146,902)</u>	Findings 1, 2, 3
Total health service costs	811,347	645,726	(165,621)	
Less authorized health service fees	(289,578)	(392,069)	(102,491)	Finding 4
Less offsetting savings/reimbursements	<u>—</u>	<u>—</u>	<u>—</u>	
Total costs	<u>\$ 521,769</u>	253,657	<u>\$(268,112)</u>	
Less amount paid by the State		<u>(521,769)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(268,112)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 406,357	\$ 400,416	\$ (5,941)	Finding 1
Benefits	78,945	78,945	—	
Services and supplies	<u>88,755</u>	<u>70,022</u>	<u>(18,733)</u>	Finding 2
Subtotals	574,057	549,383	(24,674)	
Indirect costs	<u>216,592</u>	<u>79,001</u>	<u>(137,591)</u>	Findings 1, 2, 3
Total health service costs	790,649	628,384	(162,265)	
Less authorized health service fees	(268,179)	(435,180)	(167,001)	Finding 4
Less offsetting savings/reimbursements	<u>(5,386)</u>	<u>(5,386)</u>	<u>—</u>	
Total costs	<u>\$ 517,084</u>	187,818	<u>\$(329,266)</u>	
Less amount paid by the State		<u>(165,514)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 22,304</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 530,669	\$ 530,311	\$ (358)	Finding 1
Benefits	90,720	90,720	—	
Services and supplies	<u>94,282</u>	<u>75,052</u>	<u>(19,230)</u>	Finding 2
Subtotals	715,671	696,083	(19,588)	
Indirect costs	<u>250,914</u>	<u>96,476</u>	<u>(154,438)</u>	Findings 1, 2, 3
Total health service costs	966,585	792,559	(174,026)	
Less authorized health service fees	(353,893)	(470,154)	(116,261)	Finding 4
Less offsetting savings/reimbursements	<u>(8,490)</u>	<u>(8,490)</u>	<u>—</u>	
Total costs	<u>\$ 604,202</u>	313,915	<u>\$(290,287)</u>	
Less amount paid by the State		<u>(131,954)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 181,961</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> ¹
Summary: July 1, 1999, through June 30, 2002				
Salaries	\$1,359,019	\$1,351,374	\$ (7,645)	Finding 1
Benefits	243,089	243,089	—	
Services and supplies	<u>272,417</u>	<u>217,081</u>	<u>(55,336)</u>	Finding 2
Subtotals	1,874,525	1,811,544	(62,981)	
Indirect costs	<u>694,056</u>	<u>255,125</u>	<u>(438,931)</u>	Findings 1, 2, 3
Total health service costs	2,568,581	2,066,669	(501,912)	
Less authorized health service fees	(911,650)	(1,297,403)	(385,753)	Finding 4
Less offsetting savings/reimbursements	<u>(13,876)</u>	<u>(13,876)</u>	<u>—</u>	
Total costs	<u>\$1,643,055</u>	755,390	<u>\$(887,665)</u>	
Less amount paid by the State		<u>(819,237)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (63,847)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salary costs

The district claimed unallowable salary costs totaling \$7,645 for the audit period. The unallowable salary costs result in unallowable indirect costs totaling \$2,889, based on claimed indirect cost rates.

The district's labor distribution report did not support salary costs of \$7,645 for the audit period. The following table summarizes the audit adjustment for salaries and indirect costs.

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Unallowable salary costs	\$ (1,346)	\$ (5,941)	\$ (358)	
Indirect cost rate	× 38.74%	× 37.73%	× 35.06%	
Related indirect costs	(521)	(2,242)	(126)	\$ (2,889)
Unallowable salary costs from above	(1,346)	(5,941)	(358)	(7,645)
Audit adjustment	<u>\$ (1,867)</u>	<u>\$ (8,183)</u>	<u>\$ (484)</u>	<u>\$ (10,534)</u>

Parameters and Guidelines requires that all claimed costs be traceable to source documents and/or worksheets that validate such costs. In addition, *Parameters and Guidelines* allows the district to claim only services the district provided in FY 1986-87.

Recommendation

The SCO recommends that the district claim only those costs supported by source documentation.

District's Response

In one instance, the report states that certain costs were "not supported by source documentation." In other instances, the report recommends that costs be "supported by source documentation."

It appears as if the audit report is applying some previously unpublished definition to the term "source documents." In fact, the definition applied by the audit report is still undefined and unpublished because no where in the report does it state what kind of "source documents" would satisfy its unpublished demands.

Please identify and provide the district with any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines "source documents."

SCO's Comment

The finding and recommendation remain unchanged. *Parameters and Guidelines* states that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. In addition, the SCO issues annual claiming instructions for mandated programs in accordance with *Government Code* Section

17558. The SCO's claiming instructions for the audit period include the same guidance for supporting documentation as stated in *Parameters and Guidelines*. We provided copies of *Parameters and Guidelines* and the SCO's claiming instructions to the district on August 25, 2004. For Findings 1 and 2, the district's documentation did not show evidence of the validity of costs claimed.

**FINDING 2—
Unallowable services
and supplies costs**

The district claimed unallowable services and supplies totaling \$55,336 for the audit period. The unallowable services and supplies costs result in unallowable indirect costs totaling \$20,540, based on claimed indirect cost rates.

The district claimed non-reimbursable athletic insurance costs totaling \$55,295. In addition, the district claimed \$41 for various services and supplies expenditures that are not supported by source documentation.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Unallowable services and supplies	\$(17,373)	\$(18,733)	\$(19,230)	
Indirect cost rate	<u>× 38.74%</u>	<u>× 37.73%</u>	<u>× 35.06%</u>	
Related indirect costs	(6,730)	(7,068)	(6,742)	\$(20,540)
Unallowable services and supplies from above	<u>(17,373)</u>	<u>(18,733)</u>	<u>(19,230)</u>	<u>(55,336)</u>
Audit adjustment	<u>\$(24,103)</u>	<u>\$(25,801)</u>	<u>\$(25,972)</u>	<u>\$(75,876)</u>

Parameters and Guidelines requires that all claimed costs be traceable to source documents and/or worksheets that validate such costs. In addition, the district may only claim expenditures identified as direct costs of the mandate program. Also, *Education Code* Section 76355(d) states that authorized expenditures shall not include athletic insurance.

Recommendation

The SCO recommends that the district ensure that claimed health services costs are reimbursable under the mandate program and supported by source documentation.

District's Response

Refer to the district's response to Finding 1

SCO's Comments

Refer to the SCO's comment to Finding 1

**FINDING 3—
Overstated indirect
cost rates claimed**

The district overstated its indirect cost rates, thus overstating indirect costs by \$415,502 for the audit period.

To claim indirect costs, the district prepared indirect cost rate proposals (ICRP) for each fiscal year. However, the district did not obtain federal approval of its ICRPs. The SCO auditor used the alternate methodology allowed by the SCO claiming instructions to calculate allowable indirect cost rates. The allowable indirect cost rates do not support the claimed rates. The following table summarizes the allowable and claimed indirect cost rates.

	Fiscal Year		
	1999-2000	2000-01	2001-02
Allowable indirect cost rate	14.07%	14.38%	13.86%
Less claimed indirect cost rate	<u>(38.74)%</u>	<u>(37.73)%</u>	<u>(35.06)%</u>
Unsupported indirect cost rate	<u>(24.67)%</u>	<u>(23.35)%</u>	<u>(21.20)%</u>

The following table summarizes the audit adjustments that result from the unsupported indirect cost rates:

	Fiscal Year			
	1999-2000	2000-01	2001-02	Total
Allowable direct costs claimed	\$ 566,078	\$ 549,383	\$ 696,083	
Unsupported indirect cost rate	<u>×(24.67)%</u>	<u>×(23.35)%</u>	<u>×(21.20)%</u>	
Audit adjustment	<u>\$ (139,651)</u>	<u>\$ (128,281)</u>	<u>\$ (147,570)</u>	<u>\$ (415,502)</u>

Parameters and Guidelines allows community college districts to claim indirect costs according to the SCO claiming instructions. The SCO claiming instructions require that districts obtain federal approval of ICRPs prepared according to Office of Management and Budget (OMB) Circular A-21. Alternately, districts may use form FAM-29C to compute indirect cost rates. Form FAM-29C uses total expenditures reported on the *California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)*.

Recommendation

The SCO recommends that the district use the SCO claiming instructions to calculate indirect cost rates. The district should obtain federal approval when it prepares ICRPs using OMB Circular A-21. Alternately, the district should use Form FAM-29C to prepare ICRPs.

District's Response

This finding is based upon the report's statement that "... the district prepared indirect cost rate proposals (ICRP) for each fiscal year. However, the district did not obtain federal approval of its ICRPs." The report goes on to say: "The SCO claiming instructions require that districts obtain federal approval of ICRPs prepared according to Office of Management and Budget (OMB) Circular A-21."

The Parameters and Guidelines for Health Fee Elimination (as last amended on 5/25/89) state that “Indirect costs *may be claimed* in the manner described by the State Controller in his claiming instructions.” It does not require that indirect costs be claimed in the manner described by the State Controller.

SCO’s Comment

The finding and recommendation remain unchanged. The district interpreted *Parameters and Guidelines* language incorrectly. The phrase “may be claimed” is permissive; it allows the district to claim indirect costs. If the district claims indirect costs, the costs must adhere to the SCO’s claiming instructions.

FINDING 4— Understated authorized health service fees

For the audit period, the district understated authorized health service fees by \$385,753. The district reported actual revenue received rather than health fees the district was authorized to collect.

The district’s Institutional Research Office (IRO) provided student enrollment data for each fiscal year. The IRO also identified students who received Board of Governors Grants (BOGG waivers) and were exempt from health fees. Using the student enrollment and exemption data, the following table calculates authorized health fees the district was authorized to collect.

	<u>Fall</u>	<u>Spring</u>	<u>Summer</u>	<u>Total</u>
<u>Fiscal Year 1999-2000</u>				
Student enrollment	29,315	27,511	11,930	
Less allowable health fee exemptions	<u>(14,278)</u>	<u>(13,037)</u>	<u>(3,499)</u>	
Subtotals	15,037	14,474	8,431	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(8)</u>	
Authorized health service fees	<u><u>\$ (165,407)</u></u>	<u><u>\$ (159,214)</u></u>	<u><u>\$ (67,448)</u></u>	<u><u>\$ (392,069)</u></u>
<u>Fiscal Year 2000-01</u>				
Student enrollment	30,769	29,335	12,734	
Less allowable health fee exemptions	<u>(14,228)</u>	<u>(13,605)</u>	<u>(3,823)</u>	
Subtotals	16,541	15,730	8,911	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(9)</u>	
Authorized health service fees	<u><u>\$ (181,951)</u></u>	<u><u>\$ (173,030)</u></u>	<u><u>\$ (80,199)</u></u>	<u><u>\$ (435,180)</u></u>
<u>Fiscal Year 2001-02</u>				
Student enrollment	31,923	31,214	13,271	
Less allowable health fee exemptions	<u>(15,538)</u>	<u>(15,243)</u>	<u>(4,173)</u>	
Subtotals	16,385	15,971	9,098	
Authorized student health fee	<u>× \$(12)</u>	<u>× \$(12)</u>	<u>× \$(9)</u>	
Authorized health service fees	<u><u>\$ (196,620)</u></u>	<u><u>\$ (191,652)</u></u>	<u><u>\$ (81,882)</u></u>	<u><u>\$ (470,154)</u></u>

The following table summarizes the resulting audit adjustment.

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Health fee claimed	\$ 289,578	\$ 268,179	\$ 353,893	
Less authorized health service fees	<u>(392,069)</u>	<u>(435,180)</u>	<u>(470,154)</u>	
Audit adjustment	<u>\$ (102,491)</u>	<u>\$ (167,001)</u>	<u>\$ (116,261)</u>	<u>\$ (385,753)</u>

Parameters and Guidelines requires that the district deduct authorized health fees from claimed costs. *Education Code* Section 76355(c) authorizes health fees for all students except those students who: (1) depend exclusively on prayer for healing; (2) attend a community college under an approved apprenticeship training program; or (3) demonstrate financial need. (*Education Code* Section 76355(a) increased authorized health fees by \$1 effective with the Summer 2001 session.)

Also, *Government Code* Section 17514 states that costs mandated by the State means any increased costs which a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that COSM shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Recommendation

The SCO recommends that the district deduct authorized health service fees from allowable health service program costs on the mandate claim. The district should maintain records to support its calculation of authorized health service fees. This includes records that identify actual student enrollment and students exempt from health fees pursuant to *Education Code* Section 76355(c).

District's Response

This finding is based upon the report's statement that the district "reported actual revenue received rather than health fees the district was authorized to collect."

Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college may require community college students to pay a fee...for health supervision and services..." There is no requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "~~If~~, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay. The governing board may decide whether the fee shall be mandatory or optional." (Emphasis supplied)

The finding is also based upon the report's statement that the "*Parameters and Guidelines* require that the district deduct authorized health fees from claimed costs." This is a misstatement of the

Parameters and Guidelines. The Parameters and Guidelines, as last amended on 5/25/89, state, in relevant part, “Any offsetting savings . . . must be deducted from the costs claimed. . . This shall include the amount of (student fees) as authorized by Education Code Section 72246(a).¹” The use of the term “any offsetting savings” further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

¹ Former Education Code Section 72246 was repealed by Chapter 8, Statutes of 1993, Section 29, and was replaced by Education Code Section 76355.

SCO’s Comment

The finding and recommendation remain unchanged. We agree that community college districts may choose not to levy a health services fee. However, *Education Code* Section 76355 provides the district the authority to levy a health services fee. Therefore, the related health services costs are not mandated costs as defined by *Government Code* Section 17514. Health services costs recoverable through an authorized fee are not costs the district is required to incur. *Government Code* Section 17556 states that the COSM shall not find costs mandated by the State as defined in *Government Code* Section 17514 if the district has authority to levy fees to pay for the mandated program or increased level of service.

OTHER ISSUE— Statute of limitations

The district’s response included comments regarding our authority to audit costs claimed for FY 1999-2000 and FY 2000-01. The district’s response and SCO’s comment are as follows:

District’s Response

The district’s 1999-2000 claim was filed on January 13, 2001. The district’s 2000-2001 claim was filed on December 27, 2001. The Draft Audit Report is dated July 2004 and indicates that the last day of field work was June 17, 2004. These two claims were only subject to audit until December 31, 2003. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in *Government Code* Section 17558.5.

SCO’s Comment

Our audit scope remains unchanged. *Government Code* Section 17558.5(a), effective July 1, 1996, states that a district’s reimbursement claim is subject to audit no later than two years after the end of the calendar year in which the claim is filed or last amended. No statutory language defines when the SCO must issue an audit report. We initiated the audit by conducting an entrance conference with the district on May 12, 2003, within the statute of limitations. *Government Code* Section 17558.5(c) states, “Nothing in this section shall be construed to limit the adjustment of payments . . . when a delay in the completion of

an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement.”

**Attachment—
District's Response to
Draft Audit Report**



State Center Community College District

1525 East Weldon Avenue • Fresno, California 93704-6398

Telephone (559) 226-0720

August 10, 2004

**CERTIFIED MAIL -
RETURN RECEIPT REQUESTED**

Mr. Jim L. Spano, Chief
Compliance Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Health Fee Elimination Audit

Dear Mr. Spano:

This letter is the response of State Center Community College District to the letter of Vincent P. Brown dated July 26, 2004, which enclosed a Draft Copy of your Audit Report of the district's Health Fee Elimination program, Chapter 1, Statutes of 1984, and Chapter 1118, Statutes of 1987, for the period of July 1, 1999 through June 30, 2002.

Statute of Limitations

The district's 1999-2000 claim was filed on January 13, 2001. The district's 2000-2001 claim was filed on December 27, 2001. The Draft Audit Report is dated July 2004 and indicates that the last day of field work was June 17, 2004. These two claims were only subject to audit until December 31, 2003. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in Government Code Section 17558.5.

Finding 3 - Overstated Indirect Cost Rates Claimed

This finding is based upon the report's statement that "...the district prepared indirect cost rate proposals (IRCP) for each fiscal year. However, the district did not obtain federal approval of its IRCPs." The report goes on to say: "The SCO claiming instructions require that districts obtain federal approval of IRCPs prepared according to Office of Management and Budget (OMB) Circular A-21."

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Steve Westly • California State Controller

Jim L. Spano, Chief
Compliance Audits Bureau
August 10, 2004

The Parameters and Guidelines for Health Fee Elimination (as last amended on 5/25/89) state that "Indirect costs *may be claimed* in the manner described by the State Controller in his claiming instructions." It does not require that indirect costs be claimed in the manner described by the State Controller.

Finding 4 - Understated Authorized Health Service Fees

This finding is based upon the report's statement that the district "reported actual revenue received rather than health fees the district was authorized to collect."

Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college may require community college students to pay a fee...for health supervision and services..." There is no requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "If, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay. The governing board may decide whether the fee shall be mandatory or optional." (Emphasis supplied)

This finding is also based upon the report's statement that the "*Parameters and Guidelines* require that the district deduct authorized health fees from claimed costs." This is a misstatement of the Parameters and Guidelines. The Parameters and Guidelines, as last amended on 5/25/89, state, in relevant part, "Any offsetting savings...must be deducted from the costs claimed...This shall include the amount of (student fees) as authorized by Education Code Section 72246(a)¹." The use of the term "any offsetting savings" further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

¹ Former Education Code Section 72246 was repealed by Chapter 8, Statutes of 1993, Section 29, and was replaced by Education Code Section 76355.

Jim L. Spano, Chief
Compliance Audits Bureau
August 10, 2004

Source Documents

In one instance, the report states that certain costs were "not supported by source documentation." In other instances, the report recommends that costs be "supported by source documentation."

It appears as if the audit report is applying some previously unpublished definition to the term "source documents." In fact, the definition applied by the audit report is still undefined and unpublished because no where in the report does it state what kind of "source documents" would satisfy its unpublished demands.

Please identify and provide the district with any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines "source documents."

Government Code Section 6253, subdivision (c), requires you, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the district of that determination and the reasons therefor. Also, as required, when so notifying the district, please state the estimated date and time when the records will be made available.

For the reasons stated herein, State Center Community College District respectfully submits that the proposed audit report be corrected as to the facts and the law prior to its final issuance.

Sincerely,



Thomas A. Crow, Ph.D.
Chancellor

C: Vincent P. Brown, Chief Operation Officer
State Controller's Office

Edwin Eng, Director of Finance

Lorrie Hopper, Accounting Manager

Ron Walls, Accountant Auditor

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